NATIONAL CREDIT UNION ADMINISTRATION
BOARD MEMBER GIGI HYLAND

REMARKS TO THE
7th ANNUAL MID-SIZE CEO CREDIT UNION ROUNDTABLE

Marcum Conference Center
Miami University, Oxford, OH
September 14, 2010

Thank you, Richard, for that kind introduction and for inviting me back to speak with this distinguished group of credit union leaders.

I commend all of you for taking the time out of your busy schedules to come to this meeting to network and dialogue on the pressing issues facing the credit union system. These daunting economic times make it vitally important that such collaboration and dialogue continue. In particular, it is most fitting that you meet at this nationally recognized public university which places such emphasis on strong academic programs paired with personal attention. Each of you is unique as a credit union, with different challenges regarding service to your members. However, by coming together to share experiences, you leverage each other's wisdom and strength to create a more vibrant credit union community.

Today, I'd like to focus my remarks on three areas.

First, I will discuss the national environment for credit unions from NCUA's perspective and what this environment may mean to you.

Next, I will focus on some of the key regulatory issues that NCUA is addressing.

Finally, I will discuss some strategies for managing your examination and working with examiners.

The financial condition of the credit union industry remains generally sound.

Credit union membership increased to 90.5 million during the second quarter of this year, but after credit union shares grew at a nearly 11 percent annual rate during the first quarter, share growth slowed to 0.6 percent during the second quarter. Shares still grew six times faster than loans, which grew only 0.1 percent.

The fastest-growing types of loans were those chosen by consumers seeking lower payments and less collateral. Unsecured credit cards led loan growth at 1.7 percent. Real estate loans rose 0.4 percent, boosted in part by a 10.8 percent increase in mortgage modifications as credit unions worked to make members' homes more affordable.

Aggregate delinquency and charge-off ratios inched lower in the second quarter. Credit unions in many areas, however, continue to experience greater loan losses, particularly in states struggling with high unemployment, declining real estate values, and failing businesses.

We're seeing these trends directly affect many credit union members as evidenced by the doubling of the number of members filing for bankruptcy in the second quarter. By year-end 2010, bankruptcies are on pace to exceed the total for 2009. Credit unions' earnings reflected members' struggles. Return on average assets slipped to 0.41 percent during the second quarter from 0.47 percent during the first quarter.

One bright spot is that credit unions' aggregate net worth ratio held steady at 9.9 percent.

These trends truly highlight the need for you to continue your due diligence efforts and actively monitor your loan portfolios and collection efforts. The marketplace is still immensely challenging and you need to keep your proverbial ear to the ground to assure that you are responding to members needs while executing sound, timely risk management practices. Business the way it was is not the way business is today. You should look at all the functional areas with a fresh view. Where and how do your members need you? How are you reaching out (through marketing and other efforts) to members? Do you have the necessary policies and risk management parameters in place to measure and adjust to this quickly changing environment? This includes looking at your investments to assure you have the appropriate asset liability management triggers and controls in place.

Let me now address some of the key regulatory issues NCUA is addressing.

The most significant financial and structural challenge to the credit union system continues to be the corporate credit union crisis. By now, you are well aware of the issues that triggered and deepened the corporate crisis which began almost two years ago. These include a "perfect storm" of over-concentration in private-label, mortgage-backed securities held by several large corporate credit unions, corporates' historical role as liquidity providers to the credit union system, and the credit crisis in the fall of 2008 which jeopardized corporates' ability to serve their liquidity function.

Since that time, NCUA has worked to bolster and stabilize the corporate system so that there would not be any adverse impact on consumers. This work has included: increasing the borrowing authority of the Central Liquidity Facility; creating the Temporary Corporate Credit Union Share Guarantee program to keep deposits stable; conserving U.S. Central and WesCorp; achieving the establishment of a Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund); and issuing proposed reforms to the rule governing corporate credit union operations, among other actions.

Because we are acutely aware that corporates are particularly important to mid-size and smaller credit unions and to so many of your operations, we are building a framework in which corporates can thrive in the future, even though the operating environment is certain to be very different. I anticipate that a new corporate rule will be finalized shortly, along with a plan to deal with the billions of dollars of severely impaired securities that have been weighing down corporates' finances. Our plan will ensure that corporates will begin with clean balance sheets. And our rule will ensure that corporates maintain those clean balance sheets.

The corporate situation is very complex. To help you, your staff and your boards better understand the issues, NCUA has produced a series of presentations that explain the origin, the impact and the coming resolution of the corporate crisis. These presentations are posted on NCUA's website. I encourage you and your board members to watch them. They will help you make informed decisions about the future of corporate credit unions.

Related to the corporate crisis are the assessments that we have had to levy on credit unions to keep the system stable. As you know, in June, the NCUA Board approved a 13.4 basis point assessment on federally insured credit unions to repay the $1.5 billion in outstanding borrowed funds in the Stabilization Fund on September 30, 2010. I know the assessments are burdensome; however, they are a critical component of the corporate stabilization process. But they are also the minimum needed to protect the integrity of the two funds that safeguard the system: the Share Insurance Fund, which covers losses at consumer credit unions, and the Stabilization Fund, which covers losses at corporate credit unions.

In addition to the Stabilization Fund, we must also continue to maintain the strength of the Share Insurance Fund, which protects the shares in your members' accounts and covers losses at consumer credit unions. As the economy struggles to recover, we anticipate sizeable losses by credit unions during the remainder of 2010. Unfortunately, this means a premium for the Share Insurance Fund is unavoidable this year. The NCUA Board will be taking up the issue of a premium at this week's Board meeting. Before this year began, we estimated that the range of this year's assessments for the two funds combined would be between 15 and 40 basis points. This projection is still accurate.

During my travels around the country, I've been asked whether NCUA can ease the assessment burden on mid-size and smaller credit unions. Unfortunately, NCUA is limited by the law on that point. Our statute requires assessments to be levied equally on each credit union. And the dollar amount of each credit union's assessment is based on its total insured shares. So much as we might like to cushion the blow to mid-sized and smaller credit unions, the law simply gives us no flexibility to do that.

NCUA's broad strategy to stabilize and resolve the corporate crisis includes three phases: 1) Stabilization Phase – stabilize liquidity and raise awareness about the situation; 2) Reform Phase – implement exit strategies for the extraordinary support programs and improve the regulatory framework; and 3) Resolution Phase – conduct an orderly resolution at the least cost to the credit union system. It is that last point that I want to underscore. I assure you, we are aiming to keep the assessments as low as realistically possible. One of the key drivers to our resolution efforts is to manage to the least long-term cost consistent with sound public policy.

While resolution of the corporate crisis has taken up a great deal of the agency's resources and staff time, there are still a plethora of issues affecting natural person credit unions. To date, NCUA has issued sixteen letters to credit unions on a wide range of issues including: Supervision of Low-Income Credit Unions and Community Development Credit Unions; Concentration Risk; Interagency Advisory on Interest Rate Risk Management; Information on NCUA's Merger and Purchase & Assumption Process; and Indirect Lending and Appropriate Due Diligence, among others.

These letters are testament to the agency's continued emphasis on credit unions exercising due diligence and appropriate risk management in all areas of operations. That's a good segue to some dialogue on how to manage your examinations and working with your examiners.

For those in the financial services industry, including regulators, these are incredibly stressful times. From the statistics I cited at the beginning of my remarks, it is evident that credit unions face a myriad of challenges in successfully managing operations and serving members' needs. On top of that, you have to worry about being examined -- by either state and/or federal regulators. I've talked about this topic a lot during my tenure on the NCUA Board. As someone who came from the system, I can empathize with the challenges of managing through an examination.

Here are some thoughts for you on how to manage through examinations during these trying times. First, be prepared. Gather all of the documents, policies and other materials that your examiner has requested.

Second, have a conversation with your examiner either before or at the start of the examination. Provide the examiner a high level view of: any new products and services; your credit union's asset liability management process; your due diligence efforts to manage third party vendors; your loan review process and your collection efforts, among others. Remember that the examiner only has a short time to understand your credit unions' activities and review the operations. Try to bring the examiner up to speed on what your credit union is doing as quickly as possible.

Next, be proactive. Work with your examiner during the exam to teach her about your skilled staff, the thoroughness of your due diligence processes and the involvement of your board and supervisory committee. Be polite. It's fine to disagree, but do so in a manner that is professional and based on fact, not emotion.

If you don’t agree with an examiner’s finding, discuss the issue with the supervisory examiner. If that doesn’t work, follow the appeals process to the Regional Office and if needed the NCUA’s Supervisory Review Committee.

I hope the dialogue on these three areas has been useful to you. It looks like we have a few minutes before the end of this session. I’d be happy to address any questions you may have. Thank you for listening.